

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF NEBRASKA**

In re:)	
)	Chapter 11
)	
SPECIALTY RETAIL SHOPS HOLDING CORP., <i>et al.</i> , ¹)	Case No. 19-80064 (TLS)
)	
Debtors.)	(Jointly Administered)
)	

**DECLARATION OF STEPHEN SPENCER IN
SUPPORT OF THE DEBTORS' MOTION FOR ENTRY
OF AN ORDER (I) ESTABLISHING THE BIDDING PROCEDURES
FOR PLAN SPONSORS AND (II) GRANTING RELATED RELIEF**

I, Stephen Spencer, declare under penalty of perjury:

1. I am a Managing Director at Houlihan Lokey, Inc. ("Houlihan Lokey"), the financial advisor of Specialty Retail Shops Holding Corp. and its subsidiaries (collectively, the "Debtors") in the above-captioned cases. Houlihan Lokey is a financial advisory services firm with its principal office located at 10250 Constellation Boulevard, Los Angeles, California 90067. Since joining Houlihan Lokey, I have provided restructuring advice within the context of chapter 11 restructurings, out-of-court restructurings, and distressed transactions, including transactions involving the marketing and sale of retail store assets. I am generally familiar with the Debtors' day-to-day operations, business, financial affairs, and books and records.

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Specialty Retail Shops Holding Corp. (0029); Pamida Stores Operating Co., LLC (6157); Pamida Transportation, LLC (4219); Penn-Daniels, LLC (0040); Place's Associates' Expansion, LLC (7526); Retained R/E SPE, LLC (6679); Shopko Finance, LLC (1152); Shopko Gift Card Co., LLC (2161); ShopKo Holding Company, LLC (0171); ShopKo Institutional Care Services Co., LLC (7112); ShopKo Optical Manufacturing, LLC (6346); ShopKo Properties, LLC (0865); ShopKo Stores Operating Co., LLC (6109); SVS Trucking, LLC (0592). The location of the Debtors' service address is: 700 Pilgrim Way, Green Bay, Wisconsin 54304.

2. I submit this declaration to support the relief requested in the *Debtors' Motion for Entry of an Order (I) Establishing the Bidding Procedures for Plan Sponsors and (II) Granting Related Relief* (the "Motion").² Unless otherwise indicated, all facts set forth in this declaration are based upon (a) my personal knowledge of the Debtors' operations and financial performance, (b) my attendance and oversight of the marketing process, including work done by my team members at Houlihan Lokey which I discussed with them, (c) information learned from my review of relevant financial and operational data regarding the Debtors, (d) information received from members of the Debtors' management or their advisors, and (e) my past experience advising distressed companies and their stakeholders.

3. I am authorized to submit this declaration on behalf of the Debtors, and, if I were called upon to testify, I could and would testify competently to the facts set forth herein.³

Qualifications

4. I am a senior member of Houlihan Lokey's Financial Restructuring Group. Over two decades, I have led financial restructurings in a diverse range of industries. I specialize in advising both debtors and creditors in financial restructurings and distressed mergers and acquisitions, raising capital for troubled businesses and representing debtors and creditor constituencies in bankruptcy proceedings. I frequently speak and publish on the topics of distressed mergers and acquisitions. My distressed sale and restructuring experiences include the representation of distressed companies, debtors, official committees of creditors and other significant stakeholders, including the following bankruptcies: Polaroid Corporation, Genmar

² Capitalized terms used but not otherwise defined shall have the meaning ascribed to them in the Motion.

³ The Debtors intend to file a notice of amended Bidding Procedures in advance of the hearing on the Motion.

Holdings Inc., Gander Mountain, Inc., Hawker Beechcraft Corporation, The Commonwealth of Puerto Rico and the city of Detroit, Michigan, among others.

5. Houlihan Lokey is an internationally recognized investment banking and financial advisory firm with 24 offices worldwide and approximately 1,200 employees. Houlihan Lokey provides corporate finance and financial advisory services, as well as execution capabilities, in a variety of areas, including financial restructuring. In 2018, Houlihan Lokey ranked as the No. 1 M&A advisor for U.S. transactions, according to Thomson Reuters. The firm is one of the leading providers of M&A fairness opinions and has the largest worldwide financial restructuring practice of any investment bank. Houlihan Lokey annually serves more than 1,000 clients ranging from closely held companies to Global 500 corporations.

6. Houlihan Lokey's Financial Restructuring Group, which has approximately 190 professionals, is one of the leading advisors and investment bankers to debtors, secured and unsecured creditors, acquirers, and other parties-in-interest involved in financially troubled companies based in a variety of industries and requiring complex financial restructurings, both in and outside of bankruptcy. Houlihan Lokey has been, and is, involved in a number of large restructuring cases in the United States. In particular, Houlihan Lokey has extensive experience in providing advisory services to debtors and creditors in complex sale transactions pursuant to section 363 of the Bankruptcy Code. The firm also is one of the leading providers of M&A fairness opinions and has substantial experience working with both healthy and distressed retailers.

The Marketing Process

7. Since at least May 2017, the Debtors have diligently worked with Houlihan Lokey and the Debtors' other advisors to develop and explore several strategic alternatives to maximize value for the Debtors' remaining assets, including an equity investment or the purchase of the Debtors' assets. Houlihan Lokey and the Debtors have already contacted a select group of

potential bidders, and intend to build off this process during these chapter 11 cases. These Bidding Procedures represent the final stage of a thorough and effective marketing process conducted by Houlihan Lokey, the Debtors, and the Debtors' other advisors over the course of nearly 18 months. This process was designed to solicit bids for the Debtors' assets and obtain the greatest proceeds to maximize the value for the Debtors' stakeholders.

8. These proposed Bidding Procedures provide the Debtors with a cost-effective and flexible mechanism to realize value for their business, including through the sale of the Debtors' assets or the issuance, and purchase by a plan sponsor, of new common equity interests in the reorganized Debtors (a "Transaction").

9. Moreover, pursuant to the DIP Facility, the DIP Credit Agreement, and the proposed final order approving the DIP Facility, the Debtors must satisfy certain milestones with respect to the Transaction. These milestones are satisfied by the proposed Bidding Procedures. Access to the DIP Facility is critical to the Debtors' ability to operate throughout these chapter 11 cases. Failure to adhere to the milestones would have severe consequences and threaten the Debtors' ability to continue along the best path for the Debtors and maximize the value of their estates.

The Bidding Procedures

10. Consistent with the milestones and framework contemplated by their DIP Facility and proposed chapter 11 plan, the Debtors have begun marketing their assets and filed the Motion seeking approval of Bidding Procedures to continue the efforts that were commenced prepetition.

11. The Bidding Procedures and Plan provide for substantial flexibility with respect to the structure of any transaction—*e.g.*, the sale of the Debtors' assets through the Plan or a reorganization through the issuance, and purchase by a plan sponsor, of new equity in the reorganized Debtors.

12. Preserving value for the benefit of the Debtors' estates depends in large part on the Debtors proceeding swiftly to confirmation of the Plan and minimizing the effects of the Debtors' chapter 11 cases on the value of the Debtors' businesses. The Bidding Procedures are designed to—and I believe the Bidding Procedures will actually operate to—produce a competitive and value-maximizing marketing process for the benefit of all stakeholders. I believe the process and milestones set forth in the Bidding Procedures are reasonable and appropriate to achieve this outcome.

13. To maximize the competitiveness of any bidding process, pursuant to this Motion, the Debtors also seek authority, but not direction, to pay or incur the obligation to pay, as the Debtors deem fit in an exercise of their business judgment: (a) certain Expense Reimbursement and Work Fees in an aggregate amount not to exceed \$1,000,000; and (b) a Breakup Fee in an amount not to exceed three percent of any proposed Purchase Price in connection with a third-party stalking horse bid. I believe an Expense Reimbursement, Work Fee, and Breakup Fee may be necessary in certain circumstances to secure a third-party stalking horse bid. In my experience, these amounts are typical and commercially reasonable for this type of Transaction, and will provide the Debtors the necessary flexibility to solicit the highest and best price for the remaining assets.

14. Houlihan Lokey has also worked with the Debtors and the Debtors' advisors to create a Form Equity Letter and Form Asset Purchase Agreement⁴ for bidders. Based on my

⁴ The summary of the bidding procedures in the Motion describe a Form Equity Letter and a Form Plan. Upon further consultation with the Debtors, potential bidders, and the Official Committee of Unsecured Creditors we have worked with the Debtors to create a Form Asset Purchase Agreement to provide bidders another form to maximize potential interest from bidders and therefore the value of the assets.

experience and the marketing process so far, it is my opinion that these forms are tailored to facilitate a cost-effective negotiation and maximize the value of the assets.

15. Houlihan Lokey has worked with the Debtors to develop a list of parties believed to be interested in, and whom the Debtors reasonably believe would have the financial resources to consummate, a Transaction. The list of Contact Parties includes both strategic investors and financial investors. The Debtors and Houlihan Lokey will contact (to the extent not already contacted) the Contact Parties to explore their interest in pursuing a Transaction. The Contact Parties may include parties whom the Debtors or their advisors previously contacted regarding a transaction, regardless of whether such parties expressed any interest at such time in pursuing a transaction. The Debtors will continue to discuss and may supplement the list of Contact Parties throughout the marketing process, as appropriate.

Conclusion

16. Based on these circumstances, I believe that the Debtors' proposed Bidding Procedures, including the Form Equity Commitment Letter and Form APA, are appropriately tailored to obtain the highest or otherwise best bid, and that the process and milestones set forth in the Bidding Procedures are essential to achieve the highest or otherwise best bid for the assets.

[Remainder of page intentionally left blank]

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the facts set forth in the foregoing declaration are true and correct to the best of my knowledge, information, and belief.

Dated: February 4, 2019

/s/ Stephen Spencer

Stephen Spencer
Managing Director
Houlihan Lokey, Inc.